

# Hunter Smith & Davis

LLP

A Registered Limited Liability Partnership  
**Attorneys At Law**  
Established 1916  
www.hsdllaw.com

**PLEASE RESPOND TO:**  
KINGSPORT OFFICE

**WRITER'S DIRECT DIAL NUMBER:**  
(423) 378-8810  
tsconfig@hsdlaw.com

AMEP-Z.76117

Honorable Sara Kyle, Chair  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

Re: Appalachian Power Company  
Application for Amendment to Financing Order  
Docket No. 01-01028

Attn: Shara Dillon

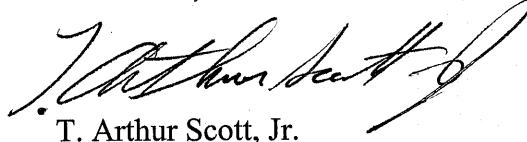
Dear Madam Chair:

Per your request, please find enclosed our check in the amount of \$25.00 to cover the filing fee for the above mentioned matter which was received in your office on August 12. Upon receipt of this check please file the Application for Amendment to Financing Order and return one stamped copy to our office.

If you should have any questions regarding the application, please contact the undersigned.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**

  
T. Arthur Scott, Jr.

Enclosure

S. Morris Hadden  
T. Arthur Scott, Jr.  
William C. Bovender  
William T. Wray, Jr.  
William C. Argabrite  
Jimmie Carpenter Miller  
Mark S. Dessauer  
Gregory K. Haden  
Michael D. Forrester  
Stephen M. Darden  
Edward J. Webb, Jr.  
James N.L. Humphreys  
Cynthia S. Kessler  
Julie Poe Bennett  
D. Michael Trantum

Suzanne Sweet Cook  
Chad W. Whitfield  
Scott T. Powers  
Leslie Tentler Ridings  
Nancy C. Eastridge  
Laura A. Steel  
Christopher D. Owens  
Michael D. Hamlin  
COUNSEL  
Shelburne Ferguson, Jr.  
Rebecca O. Cutshaw  
Thomas R. Wilson  
Edwin L. Treadway (Ret.)

**Kingsport Office**  
1212 North Eastman Road  
P.O. Box 3740  
Kingsport, TN 37664-0740  
Phone (423) 378-8800  
Fax (423) 378-8804

**Johnson City Office**  
Suite 113  
AmSouth Bank Building  
208 Sunset Drive  
Johnson City, TN 37604  
Phone (423) 283-6300  
Fax (423) 283-6301

**Greeneville Office**  
Suite 4, Courtside Complex  
129 West Depot Street  
P.O. Box 1743  
Greeneville, TN 37744  
Phone (423) 639-4444  
Fax (423) 639-3272

<b>PAID T.R.A.</b>	
Chk #	<u>042036</u>
Amount	<u>25.00</u>
Rcvd By	<u>JP</u>
Date	<u>8-15-02</u>

02-00872

# Hunter Smith & Davis

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**PLEASE RESPOND TO:**  
KINGSPORT OFFICE

**WRITER'S DIRECT DIAL NUMBER:**  
(423) 378-8810  
tscott@hsdlaw.com

AMEP-Z.73796

Honorable Sara Kyle, Chair  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

Re: Appalachian Power Company  
Application for Amendment to Financing Order  
Docket No. 01-01028

Dear Madam Chair:

In connection with this matter, please find enclosed one original and thirteen conformed copies of the above referenced application including Exhibits E and F and Verification. We have enclosed an additional copy which we would appreciate your returning when it has been time-stamped as received by your office. We have enclosed a self-addressed stamped envelope for this purpose. Since this is an Amendment to a previously filed Financing Order we are not enclosing a filing fee. If this is not the case, please let us know.

If you should have any questions regarding the application, please contact the undersigned.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**



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Phone (423) 639-4444  
Fax (423) 639-3272

August 9, 2002

VIA FEDERAL EXPRESS  
**RECEIVED**  
TN REG. AUTHORITY

AUG 13 2002

ENERGY & WATER DIVISION

**RECEIVED**

AUG 12 2002

SARA KYLE, COMMISSIONER  
TN PUBLIC SERVICE COMM.

**DOCKET NO.**

02-00872

Page 2  
August 9, 2002

Enclosures

Cc: Mr. R. Daniel Carson, Jr. (w/o encl.)  
Thomas G. Berkemeyer, Esq. (w/o encl.)  
William E. Johnson, Esq. (w/ encl.)  
Mr. Isaac Webb (w/o encl.)  
Russell T. Perkins, Esq. (w/encl.)  
Mr. Barry Thomas (w/o encl.)

Before the  
TENNESSEE REGULATORY AUTHORITY

In the Matter of the :

APPLICATION :

DOCKET NO 01-01028

of :

APPALACHIAN POWER COMPANY :

DOCKET NO.

02-00872

VERIFICATION

I, Susan Tomasky, am authorized to represent Appalachian Power Company and to make this verification on its behalf. The statements in the Application of Appalachian Power Company filed in this docket today are true and of my own knowledge, except as to matters which are stated therein on information and belief, and as to those matters, I believe them to be true. Appalachian Power Company will comply with all applicable laws with respect to its issuance of securities to the public. I declare under penalty of perjury that the foregoing is true and correct.

APPALACHIAN POWER COMPANY

By:

Susan Tomasky  
Vice President

STATE OF OHIO :

COUNTY OF FRANKLIN :ss.

Subscribed and sworn before me this 2nd day of August, 2002.

By:

Mary M. Lathrop  
Notary Public

My commission expires 07-13-04

Before the  
TENNESSEE REGULATORY AUTHORITY

APPALACHIAN POWER COMPANY  
For authority to issue and sell additional  
Promissory Notes in the amount of  
Up to \$200,000,000

DOCKET No. 01-01028

APPLICATION FOR AMENDMENT TO FINANCING ORDER

On January 14, 2002, the Tennessee Regulatory Authority issued an order under T.C.A. Section 65-4-109 to Appalachian Power Company (the "Applicant"), approving Applicant's original application ("Original Application") to issue (1) up to \$450 million in secured or unsecured promissory notes from time to time through December 31, 2002; and (2) the entering into of one or more interest rate hedging arrangements from time to time through December 31, 2002 (the "Financing Order").

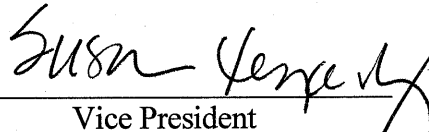
Due to a favorable interest rate environment which was not foreseen when the Applicant filed its Original Application (on November 22, 2001), Applicant issued unsecured long-term debt of a principal amount of \$450 million on June 18, 2002 primarily for the purpose of refunding indebtedness in an amount that was greater than anticipated at the time of the Financing Order. The other result of this, however, is that the other purposes for the requested debt stated in the Original Application remain unfunded unless Applicant is permitted to increase the total amount of financing. Applicant's current financing requirements equal approximately \$200 million in capital expenditures and other general corporate purposes including construction and the repayment of short-term debt.

Applicant therefore requests the Authority to issue a new order supplementing the Finance Order and permitting Applicant to issue an additional \$200 million in secured or unsecured promissory notes from time to time through December 31, 2002, which amount, when aggregated with the existing long-term debt authority of \$450 million, will equal \$650 million. All other terms and conditions set forth in the Finance Order will remain in effect.

Applicant avers that there has been no material adverse change to the financial condition of Applicant since the time of the Application. Balance Sheets and Statements of Income and Retained Earnings for the year ended December 31, 2001 are attached hereto as Exhibit E. Balance Sheets and Statements of Income and Retained Earnings for the quarter ended March 31, 2002 are attached hereto as Exhibit F.

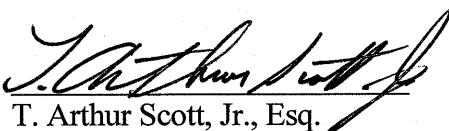
APPALACHIAN POWER COMPANY

By

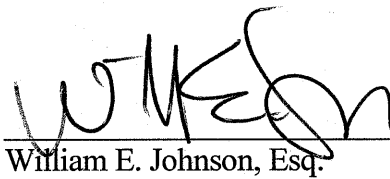
  
Vice President

Dated: August 2, 2002

Attorneys for Applicant:



T. Arthur Scott, Jr., Esq.  
Hunter, Smith & Davis, LLP  
P.O. Box 3740  
Kingsport, TN 37664  
TN. BPR Number 000749



William E. Johnson, Esq.  
American Electric Power Service Corporation  
P.O. Box 16631  
Columbus, OH 43216-6631

STATE OF OHIO                    )  
  ) ss:  
COUNTY OF FRANKLIN         )

Before me, Mary M. Soltesz, a Notary Public in and for the State and County aforesaid, this 2nd day of August, 2002, personally appeared Susan Tomasky, to me known to be the person whose name is signed to the foregoing Petition, and after being first duly sworn made oath and said that she is a Vice President of Appalachian Power Company, that she has read the Petition and know the contents thereof, that the allegations therein are true and correct to the best of her knowledge, information and belief, and that she is duly authorized to make, verify and file the Petition for Appalachian Power Company.

Subscribed and sworn to before me this 2nd day of August, 2002.

  
\_\_\_\_\_  
Notary Public

**MARY M. SOLTESZ**  
NOTARY PUBLIC, STATE OF OHIO  
My Commission Expires 07-13-04

## APPALACHIAN POWER COMPANY AND SUBSIDIARIES

Consolidated Statements of Income

	Year Ended December 31,		
	2001	2000	1999
	(in thousands)		
OPERATING REVENUES:			
Electricity Marketing and Trading	\$6,233,109	\$4,357,712	\$3,304,755
Energy Delivery	595,036	574,918	565,660
Sales to AEP Affiliates	171,285	154,678	100,232
Total Operating Revenues	<u>6,999,430</u>	<u>5,087,308</u>	<u>3,970,647</u>
OPERATING EXPENSES:			
Fuel	351,557	369,161	444,711
Purchased Power:			
Electricity Marketing and Trading	5,253,983	3,349,279	2,442,819
AEP Affiliates	346,878	355,774	130,991
Other Operation	263,798	282,610	249,616
Maintenance	132,373	124,493	123,834
Depreciation and Amortization	180,393	163,089	148,874
Taxes Other Than Income Taxes	99,878	111,692	112,722
Income Taxes	95,584	130,056	75,844
Total Operating Expenses	<u>6,724,444</u>	<u>4,886,154</u>	<u>3,729,411</u>
OPERATING INCOME	274,986	201,154	241,236
NONOPERATING INCOME	2,320,649	1,415,530	684,080
NONOPERATING EXPENSES	2,312,642	1,400,655	675,793
NONOPERATING INCOME TAX EXPENSE	1,139	3,123	191
INTEREST CHARGES	<u>120,036</u>	<u>148,000</u>	<u>128,840</u>
INCOME BEFORE EXTRAORDINARY ITEM	161,818	64,906	120,492
EXTRAORDINARY GAIN - DISCONTINUANCE OF REGULATORY ACCOUNTING FOR GENERATION (Inclusive of Tax Benefit of \$7,872,000)	<u>-</u>	<u>8,938</u>	<u>-</u>
NET INCOME	161,818	73,844	120,492
PREFERRED STOCK DIVIDEND REQUIREMENTS	<u>2,011</u>	<u>2,504</u>	<u>2,706</u>
EARNINGS APPLICABLE TO COMMON STOCK	<u>\$ 159,807</u>	<u>\$ 71,340</u>	<u>\$ 117,786</u>

Consolidated Statements of Comprehensive Income

	Year Ended December 31,		
	2001	2000	1999
	(in thousands)		
NET INCOME	\$161,818	\$73,844	\$120,492
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign Currency Exchange Rate Hedge	<u>(340)</u>	<u>-</u>	<u>-</u>
COMPREHENSIVE INCOME	<u>\$161,478</u>	<u>\$73,844</u>	<u>\$120,492</u>

See Notes to Financial Statements beginning on page L-1.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES  
Consolidated Balance Sheets

	December 31,	
	<u>2001</u>	<u>2000</u>
	(in thousands)	
ASSETS		
ELECTRIC UTILITY PLANT:		
Production	\$2,093,532	\$2,058,952
Transmission	1,222,226	1,177,079
Distribution	1,887,020	1,816,925
General	257,957	254,371
Construction work in Progress	203,922	110,951
Total Electric Utility Plant	<u>5,664,657</u>	<u>5,418,278</u>
Accumulated Depreciation and Amortization	<u>2,296,481</u>	<u>2,188,796</u>
NET ELECTRIC UTILITY PLANT	<u>3,368,176</u>	<u>3,229,482</u>
OTHER PROPERTY AND INVESTMENTS	<u>53,736</u>	<u>56,967</u>
LONG-TERM ENERGY TRADING CONTRACTS	<u>316,249</u>	<u>322,038</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	13,663	5,847
Advances to Affiliates	-	8,387
Accounts Receivable:		
Customers	113,371	243,298
Affiliated Companies	63,368	63,919
Miscellaneous	11,847	16,179
Allowance for Uncollectible Accounts	(1,877)	(2,588)
Fuel - at average cost	56,699	39,076
Materials and Supplies - at average cost	59,849	57,515
Accrued Utility Revenues	30,907	66,499
Energy Trading Contracts	566,284	2,024,222
Prepayments	<u>16,018</u>	<u>6,307</u>
TOTAL CURRENT ASSETS	<u>930,129</u>	<u>2,528,661</u>
REGULATORY ASSETS	<u>397,383</u>	<u>447,750</u>
DEFERRED CHARGES	<u>42,265</u>	<u>48,826</u>
TOTAL	<u>\$5,107,938</u>	<u>\$6,633,724</u>

See Notes to Financial Statements beginning on page L-1.

# APPALACHIAN POWER COMPANY AND SUBSIDIARIES

December 31,	
<u>2001</u>	<u>2000</u>
(in thousands)	
\$ 260,458	\$ 260,458
715,786	715,218
(340)	-
150,797	120,584
<u>1,126,701</u>	<u>1,096,260</u>
17,790	17,790
10,860	10,860
<u>1,476,552</u>	<u>1,430,812</u>
<u>2,631,903</u>	<u>2,555,722</u>
<u>84,104</u>	<u>105,883</u>
80,007	175,006
-	191,495
291,817	-
131,387	153,422
84,518	107,556
55,583	63,258
13,177	12,612
21,770	21,555
549,703	2,080,025
<u>75,299</u>	<u>85,378</u>
<u>1,303,261</u>	<u>2,890,307</u>
<u>703,575</u>	<u>682,474</u>
<u>38,328</u>	<u>43,093</u>
<u>257,129</u>	<u>258,788</u>
<u>89,638</u>	<u>97,457</u>
<u>\$5,107,938</u>	<u>\$6,633,724</u>

See Notes to Financial Statements beginning on page L-1.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

	Three Months Ended March 31,	
	2002	2001
	(in thousands)	
OPERATING REVENUES:		
Electricity Marketing and Trading	\$1,257,355	\$1,773,894
Energy Delivery	154,995	152,097
Sales to AEP Affiliates	42,806	48,136
TOTAL OPERATING REVENUES	<u>1,455,156</u>	<u>1,974,127</u>
OPERATING EXPENSES:		
Fuel	107,490	95,476
Purchased Power:		
Electricity Marketing and Trading	1,005,599	1,479,528
AEP Affiliates	60,780	105,674
Other Operation	67,427	65,889
Maintenance	25,851	33,009
Depreciation and Amortization	46,772	43,717
Taxes Other Than Income Taxes	24,995	25,428
Income Taxes	34,688	37,254
TOTAL OPERATING EXPENSES	<u>1,373,602</u>	<u>1,885,975</u>
OPERATING INCOME	81,554	88,152
NONOPERATING INCOME	400,172	465,405
NONOPERATING EXPENSES	398,733	458,205
NONOPERATING INCOME TAX EXPENSE	264	2,149
INTEREST CHARGES	<u>27,388</u>	<u>31,416</u>
NET INCOME	55,341	61,787
PREFERRED STOCK DIVIDEND REQUIREMENTS	<u>503</u>	<u>503</u>
EARNINGS APPLICABLE TO COMMON STOCK	<u>\$ 54,838</u>	<u>\$ 61,284</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(UNAUDITED)

	Three Months Ended March 31,	
	2002	2001
	(in thousands)	
NET INCOME	\$55,341	\$61,787
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign Currency Exchange Rate Hedge	<u>143</u>	<u>(417)</u>
COMPREHENSIVE INCOME	<u>\$55,484</u>	<u>\$61,370</u>

The common stock of the Company is wholly owned by AEP.

See Notes to Financial Statements beginning on page L-1.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS  
(UNAUDITED)

	Three Months Ended March 31, <u>2002</u>	<u>2001</u> (in thousands)
BALANCE AT BEGINNING OF PERIOD	\$150,797	\$120,584
NET INCOME	55,341	61,787
DEDUCTIONS:		
Cash Dividends Declared:		
Common Stock	30,984	32,399
Cumulative Preferred Stock	361	361
Capital Stock Expense	<u>142</u>	<u>142</u>
BALANCE AT END OF PERIOD	<u>\$174,651</u>	<u>\$149,469</u>

The common stock of the Company is wholly owned by AEP.

See Notes to Financial Statements beginning on page L-1.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

March 31, 2002    December 31, 2001  
(in thousands)

ASSETS

ELECTRIC UTILITY PLANT:

Production	\$2,084,311	\$2,093,532
Transmission	1,212,470	1,222,226
Distribution	1,889,828	1,887,020
General	260,110	257,957
Construction Work in Progress	<u>267,720</u>	<u>203,922</u>
Total Electric Utility Plant	5,714,439	5,664,657
Accumulated Depreciation and Amortization	<u>2,326,515</u>	<u>2,296,481</u>
NET ELECTRIC UTILITY PLANT	<u>3,387,924</u>	<u>3,368,176</u>

OTHER PROPERTY AND INVESTMENTS

51,497                      53,736

LONG-TERM ENERGY TRADING CONTRACTS

521,221                      316,249

CURRENT ASSETS:

Cash and Cash Equivalents	-	13,663
Accounts Receivable:		
Customers	120,599	113,371
Affiliated Companies	98,805	63,368
Miscellaneous	20,983	11,847
Allowance for Uncollectible Accounts	(2,259)	(1,877)
Fuel - at average cost	50,582	56,699
Materials and Supplies - at average cost	53,307	59,849
Accrued Utility Revenues	23,894	30,907
Energy Trading Contracts	766,378	566,284
Prepayments	<u>21,694</u>	<u>16,018</u>
TOTAL CURRENT ASSETS	<u>1,153,983</u>	<u>930,129</u>

REGULATORY ASSETS

391,518                      397,383

DEFERRED CHARGES

45,939                      42,265

TOTAL ASSETS

\$5,552,082                      \$5,107,938

See Notes to Financial Statements beginning on page L-1.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

March 31, 2002    December 31, 2001  
(in thousands)

CAPITALIZATION AND LIABILITIES

CAPITALIZATION:

Common Stock - No Par Value:

Authorized - 30,000,000 Shares

Outstanding - 13,499,500 Shares

Paid-in Capital

Accumulated Other Comprehensive Income (Loss)

Retained Earnings

Total Common Shareowner's Equity

Cumulative Preferred Stock:

Not Subject to Mandatory Redemption

Subject to Mandatory Redemption

Long-term Debt

\$ 260,458	\$ 260,458
715,928	715,786
(197)	(340)
<u>174,651</u>	<u>150,797</u>
1,150,840	1,126,701
17,790	17,790
10,860	10,860
<u>1,476,819</u>	<u>1,476,552</u>

TOTAL CAPITALIZATION

2,656,309    2,631,903

OTHER NONCURRENT LIABILITIES

84,672    84,104

CURRENT LIABILITIES:

Long-term Debt Due within One Year

Advances from Affiliates

Accounts Payable - General

Accounts Payable - Affiliated Companies

Taxes Accrued

Customer Deposits

Interest Accrued

Energy Trading Contracts

Other

80,007	80,007
259,826	291,817
100,440	131,387
126,921	84,518
84,712	55,583
14,874	13,177
39,286	21,770
740,311	549,703
<u>71,916</u>	<u>75,299</u>

TOTAL CURRENT LIABILITIES

1,518,293    1,303,261

DEFERRED INCOME TAXES

700,120    703,575

DEFERRED INVESTMENT TAX CREDITS

37,230    38,328

LONG-TERM ENERGY TRADING CONTRACTS

463,896    257,129

REGULATORY LIABILITIES AND DEFERRED CREDITS

91,562    89,638

CONTINGENCIES (Note 8)

TOTAL CAPITALIZATION AND LIABILITIES

\$5,552,082    \$5,107,938

See Notes to Financial Statements beginning on page L-1.